learning and skills development agency

college turnaround

guidance on colleges in recovery

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Summary

Financial crisis usually strikes an already weak college which is subject to an unexpected financial 'shock'. The funding councils gave support in such cases, but often at a price which reduced the college's ability to determine its own independent future. With the changeover to the Learning and Skills Council (LSC), the support and the price may change, and the LSC's power to appoint governors to college boards will also have a bearing. In any event, to survive, the college must adopt a turnaround strategy which includes:

- recognising the crisis
- stabilising the crisis by taking control of all expenditure
- analysing what has gone wrong
- making management changes
- managing stakeholders
- identifying strategic options
- planning recovery
- delivering recovery.

The changes required by turnaround colleges in going through the process are difficult to overestimate, but must be fundamental if the college is to survive and thrive.

Introduction

As the local LSCs come to grips with their new responsibilities concerning provider performance and the national LSC works on guidance for the sector, it is appropriate to reflect on colleges' experiences of acute financial problems since incorporation. Much of the work in the regional offices of the Further Education Funding Council (FEFC) was connected with colleges 'in recovery' – the euphemism that was used to describe colleges in very serious financial situations. Working with such colleges, it was apparent that there was very little written guidance to share with them. They were given support and urged to seek advice from professional advisers and colleges that had gone through similar situations, but there was no circular or even a rough guide to help them. That is a gap which this paper is meant to partly fill and, in so doing, to widen the subject from simple recovery planning to turnaround management).

This guidance is intended for three sets of people. First and foremost, it is for senior managers in colleges who may have to deal at first hand with the issues. Although primarily of interest to colleges in weak financial situations, the matter should be of broader interest to those seeking to avoid weakness. Secondly, the guidance is for college governors, because in a crisis it is often they who have to take control as new management is installed. Even where there is no management change, governors will need to understand the steps that their college managers are having to take. The third audience is the LSC, particularly those in local LSCs whose background is not one of college management or FEFC work. Local LSCs play a crucial role in college recovery and they will want to understand the recent history of the subject.

The basis for this guidance is the collective experience of some ex-FEFC colleagues, case-study research among colleges that have successfully been turned round, and Corporate turnaround (Slatter and Lovett 1999). There are four main sections.

- A description of how recovery has been handled over the last few years. This is mainly based on how the FEFC appeared to deal with recovery, because they have been in the driving seat. It remains to be seen how much of a changed approach the LSC will take, but at the very least, the LSC's powers to appoint governors (which the FEFC did not have) should make some difference. The Public Accounts Committee certainly identified the need for a stronger role:

  but I am trying to put to you what other colleagues have been trying to put to you this afternoon, which is that if you (FEFC) had been a bit quicker off the mark in the first place in trying to prevent them (colleges) getting onto that situation (financial difficulties), everybody would have been a damned sight happier

  (PAC 2001, paragraph 128).

- An extended summary of Slatter and Lovett (1999) which amplifies the subject and takes us into the private sector.
- A set of case studies of colleges which have successfully managed recovery. Although each case is, in a way, unique, there are various general lessons to be learned.
- Guidance on preparing a college turnaround strategy.

Turnaround or recovery?

The terminology needs to be clarified at the outset. 'Recovery' was the term used by the FEFC to describe the situation of particular colleges in crisis and put special emphasis on the preparation of a recovery plan. In reality, however, it is apparent that recovery is just one phase of what Slatter and Lovett call 'turnaround'. The difference between the two is explained below but, briefly, turnaround is a more comprehensive approach than recovery. In this paper, therefore, the term 'turnaround' will be preferred except when describing FEFC processes or when the recovery plan *per se* is the subject. The term 'recovery', moreover, may cause confusion because recovery has meant not only the situation described in this paper, but was also used as an FEFC alternative for the clawback of funding. When discussing the recovery situation of a college, one needs to be sure in what sense the word is being used if confusion is to be avoided.

Recovery under the FEFC

The number of financially weak 'category C colleges' (providers that are financially weak and that are, or may become, dependent on the goodwill of others) peaked at 25% of the total in 1997/8, then fell to 13% (56 colleges) by 1999/2000, but rose again to 17% (72 colleges) in November 2000 (NAO 2000; PAC 2001). Some, but not all, of these colleges will also have been identified as being in recovery, a crisis state worse than mere weak financial health; recovery colleges also include a few which had not been hitherto classed as weak.

Why colleges get into crisis and recovery situations has been a matter of concern almost since incorporation. The fact that the sector as a whole received a government funding cut per student of about 26% in real terms between 1993/4 and 1997/8 (PAC 2001) might be part of the answer; the sector has clearly been weakened. In researching why some colleges rather than others had weak financial health, the National Audit Office (NAO 2000), identified a number of internal and external factors, but none explain the descent from weak health into crisis. This descent seems to require a trigger – an event or series of events that trips the weak college over the catastrophe threshold.

From this research, there appears to be a variety of reasons or combinations of reasons which trigger crisis. Probably the most significant is the reliance on misleading data – relating to student numbers and / or finance. Colleges are reasonably complex organisations in any event and they rely on a funding methodology which was identified as 'Byzantine' by the Public Accounts Committee. It has therefore been possible for colleges with less than excellent management information systems (MIS) to mislead themselves into thinking that they had earned more income than was in fact the case. The longer that these errors are perpetuated, the greater becomes the eventual clawback of funding. Also related to the obscurities of the funding methodology have been crises due to provision being declared ineligible for funding, often after significant expenditure has been incurred; similar ineligibility of European Social Fund (ESF) provision can also be a major problem. A third reason for crisis has been the unanticipated discovery through inspection that provision is of poor quality. This can have a very swift effect on recruitment and income. And fourthly, we have sudden external changes such as national policy shifts on franchising which left some colleges very exposed.

Many of the other crisis triggers can be put down to mismanagement which has led to:

- major expansion into non-viable areas of provision
- loss of significant customers
- a major building project that is allowed to go over budget or timetable
- poor curriculum and staff planning and / or control leading to inefficient use of resources
- financial mismanagement such as allowing expenditure to spiral out of control.

As corporate bodies, colleges are expected to be able to cope with most problems from their own resources. Through risk analysis, they are in fact encouraged to anticipate such risks in advance, assess the sensitivity of the college to them, and to put in place appropriate contingency arrangements. As with any business, there may be lean years as well as good, and the organisation has to balance them out without external assistance. The funding system, moreover, had a safety net, a guarantee of certain minimum funds irrespective of student numbers. There are occasions, however, when the problems are so large that extraordinary measures are needed, and this takes us into crisis and the realms of recovery plans.

It is likely, although by no means inevitable, that the FEFC would have identified the college as 'causing concern' before recovery became an issue and would be monitoring the situation. Whether or not this was the case, the FEFC, and now LSC, would require a college to produce a recovery plan when it was understood that the college needed significant additional external support. The need for such support might be requested by the college, but more usually it emerges from an in-depth review of the college's strategic plan and financial forecast. In particular, if the latter shows over the three-year currency of the forecast that the college would:

- have a current ratio at the end of the period of less than 1 **and**
- have an operating deficit at the end of the period **and**
- there are no exceptional circumstances which might explain the current ratio and deficit position

it is likely that a recovery plan would be required from the college.

Is the requirement to produce a recovery plan the appropriate first response of the stakeholder to a college in a serious financial situation? Clearly it may be part of the appropriate response, but it neglects the prior need for the college to stabilise its position and (possibly) to change its leadership. By insisting that a college, haemorrhaging cash, should complete a recovery plan within a tight timescale, the stakeholder risks distorting the turnaround by prolonging the crisis. It is clear, particularly from some of the case studies, that priority needs to be given to stabilising the crisis and that this is where management attention needs to be directed. Once stabilisation is assured, thoughts can turn to a recovery plan.

Financial issues are the usual indicators of the need for recovery because many non-financial problems are reflected in the financial figures. There will be occasions, however, when this is not the case: when the figures continue to be relatively healthy, but major problems of perhaps quality or management are apparent. It is likely that such problems will eventually be reflected in the financial figures, but corrective action needs to be taken in any event. In Slatter and Lovett's terms, the college is 'in denial'. These are difficult cases because a college may argue that recovery is inappropriate until the finances go awry, but it is better to act sooner rather than later.

When it became apparent that a recovery plan was needed, the FEFC usually made its production a condition of further funding, which meant that it was an offer the college could not refuse! The broad contents of recovery plans are generally fairly similar and are set out in more detail in 'College turnaround – the process' (page 25). The college remains responsible for the production of the plan, although several draft plans are likely to be discussed with FEFC / LSC over a period of between three and six months until an outcome satisfactory to all concerned is achieved.

Like any other strategic plan, a recovery plan must be approved by the college's governors. In the past, the FEFC did not 'approve' a recovery plan – the terminology used was that the FEFC 'finds the plan useful' or 'can work with the plan'. The reasons for this are that it emphasises the college's status as an independent corporate body; and, if the plan failed, the FEFC had no ownership or responsibility for the plan. As it seems likely that the LSC will take a more 'hands on' approach to colleges, it may be that the stance *vis-à-vis* recovery plans will change. In addition to the FEFC / LSC, the college's bankers are very likely to be concerned about the recovery plan, although in the past the FEFC would give them no comfort on the matter.

Although there was no formal FEFC guidance on the contents of a recovery plan, there grew up a sort of *samizdat* guidance, an example of which is shown in the appendix (page 33). In addition, the NAO (2000) reported on a number of successfully recovered colleges and outlined the measures which some had taken:

- programmes of voluntary / compulsory redundancies
- an organisational review
- the establishment of income-generating centres
- an assessment of the viability of non-core services
- the introduction of new flexible contracts and the curtailment of inflexible teaching contracts
- subjecting central services to testing by putting them out to tender
- the use of marketing consultants to increase (student) recruitment
- the use of retention incentive schemes
- an increase in teaching hours for new contract holders
- the introduction of a new model management career structure
- the review of rates of pay for agency staff
- the introduction of pay awards linked to surplus.

As part of the discussions between the college and the FEFC on the recovery plan, it was usual to consider the additional support to be provided by the FEFC. The types of extra support that the FEFC might have given were fairly complex and depended on the nature of the college's problems and the FEFC's policy at the time. This latter point needs amplification. It is clear that college failure could not be simply rewarded with additional funding as this would not only encourage colleges to be profligate, but could also be a misuse of public funds. Policy therefore developed over time, and perhaps with variations between regions, over what type of support to give and what to demand in return. A taxonomy of support, in ascending order of seriousness and rarity, might look as follows:

- the allocation of Standards Fund monies for 'colleges causing concern'
- the regular monthly payments of recurrent funding allocation may have been reprofiled to assist cash flow problems
- consent may have been given to secured borrowing from a bank: this was significant because colleges with financial problems had often had the implied consent to borrow under the FEFC financial memorandum suspended
- approval may have been given to a cash advance from the FEFC, usually repayable in 12 monthly instalments

- a major capital project may have been approved for grant support, where appropriate, to enable a college to make savings in running costs, to update the teaching provision, or to realise the value of surplus sites
- the college may have been moved into cash protection: this meant that whatever the unit outturn, the college was guaranteed at least 90% of the funding it received in the previous year; cash protection greater than 90% was sometimes approved
- the college may have been re-based, which meant that, in effect, a new higher average level of funding (ALF) was used for a period of years: re-based ALFs more than £5 higher than the common level have been noted. Under the LSC's funding system, which does not have ALFs, the same result could be achieved by giving a percentage uplift to the whole of the formula funding
- the college may have been taken out of the funding system altogether and funded on the basis of monthly audited expenditure statements certified by independent accountants; this option was usually for a maximum of one year.

The price required by the FEFC for some of the most serious forms of support usually involved changes in the senior managers and / or governors of the college. With 47 local LSCs taking over front-line responsibility for dealing with providers in recovery, the problems of national consistency as to which support measures to use, and the prices demanded in return, will clearly concern the LSC.

Corporate turnaround

Several college principals observed that Slatter and Lovett's book *Corporate turnaround* was particularly useful to them, either as a guide on what to do or as confirmation of what they had already done. Although it is firmly grounded in private sector experience, the book lays out a clear path for any college principal. Because of its relevance, it has been decided to include this section, in the form of selective notes from the book, in addition to using it in the rest of the paper. There are, of course, aspects which do not translate into the public sector
FE context – turning debt into equity may be some way away in most colleges. In these notes, moreover, I have tended to emphasise those aspects of turnaround which are usually omitted from an ordinary recovery plan.
There is, of course, no substitute for reading the book itself.

The book takes a broad and persuasive view of turnaround, arguing that it is the combination of a whole set of strategies and processes:

One of our fundamental propositions is that turnaround management is holistic. Successful turnarounds are based on addressing both strategic and operational issues. Rescue plans seek to cut costs and grow revenues. The perspective is both short and long term.

It identifies the warning signs for vulnerable firms probably unaware of their true situation:

…the reality gap – the gap between reported performance and actual performance. When the gap becomes apparent to management they might take corrective action or they may go into crisis denial.

When the crisis becomes undeniable, stress follows:

Crisis, once recognized by management, induces stress. The crisis may well have existed for some time before it was recognized, but admitting the problem is often stressful to those who have to deal with it. This has a negative impact on managerial behaviour, and this in turn has a deteriorating effect on the whole organization.

Beyond a certain point stress becomes anxiety-producing rather than motivational; experimental findings tend to indicate the existence of an inverse relationship between stress and the performance of individuals and groups.

Management performance starts to suffer:

- **reduction in management's span of attention** less thorough information search, danger signals ignored, unpleasant information rejected, decision-making one-off rather than integrated
- **managerial inflexibility** reduced tolerance of ambiguity, dominant view maintained in face of contrary evidence, stereotype views, autocracy
- **time perspective reduction** rush to decisions even when not necessary.

Management and / or stakeholders must initiate a ‘quick and dirty’ analysis or diagnostic review to establish the true position of the organisation and determine whether turnaround is possible or whether there has to be insolvency or a similar solution. One of the issues concerns the existing management – who is part of the problem, who is part of the solution, who needs to leave immediately because they are obstructive, and who holds real power or influence.

If the results of the analysis suggest that a turnaround is feasible, then the turnaround strategy has to be put in place ; if unfeasible, then insolvent liquidation is likely.

Slatter and Lovett suggest a seven-part generic turnaround strategy :

1 Crisis stabilisation

Short-term cash management

Assess immediate cash requirements with cash forecasts on daily basis ; strict receipts and payments basis. Develop cash-generating activities. Emergency cash management controls including a completely centralised control system ; review automatic payment runs. Reduction of debtors ; give absolute authority to the finance department to resolve disputed debts. Extend creditors ; don’t pay too early.

New management and financial controls

Very strong ‘top down’ control. Devolved authority to spend money, incur credit, or commit the business in any way is removed.

Taking control means putting in place a set of simple but effective management controls on day one. One of the simplest and most commonly used controls – particularly in small to medium sized companies – is for the turnaround manager to take the chequebooks away and sign all the cheques himself. This will give him a real insight into what is happening in the company. In most cases there is little the turnaround manager can do but sign the cheques, since the goods or services being paid for have already been consumed ; but the knowledge gained about the business is enormous.

Freeze on all hiring of staff : review all vacancies.

Ban all capital expenditure.

Purchasing controls : any purchase order above a given size must be approved by the turnaround manager irrespective of budget availability.

Waiting for suppliers’ invoices to arrive is too late – the firm has already been contractually committed.

Review outstanding purchase orders with a view to cancellation.

Centralise communication with stakeholders.

Do not assume automatic compliance with new controls.

In situations where management and staff blatantly ignore the new controls, a highly visible dismissal in the first few weeks is often enough to send a shock wave through the rest of the organization.

Review basic financial controls – accurate data, management accounts, accounting procedures, accounting policies.

First stage cost reduction

Reduce obvious overstaffing, remove those clearly not adding value but, at this stage, do not try to change existing work processes or working methods. A LI-FO [last in, first out] redundancy policy minimises cost.

Purchasing: look for easy-win cost reductions by negotiating lower prices.

Cut overheads: travel, consultants, subscriptions, entertaining, advertising.

2 Leadership

Change of CEO, change of other senior managers, communications.

Since the previous CEO was the principal architect of failure, it is very unlikely that he or she can form part of the solution. Also, a change of CEO has enormous symbolic importance. But an existing CEO who is not in crisis denial, who understands the reality gap, is acutely aware of the causes of decline, and is determined to restore the company's fortunes is often a less risky choice than a new CEO. Other senior managers may be resistant to change, but it might not be possible to quickly find replacements; the turnaround manager has to deliver superior performance from a weak team.

The archetypal turnaround manager is often a crisis manager…The appointment of someone who has all the short term skills often results in crisis stabilization, but not much else. A different person is then needed to lead the renewal stage, but this requires yet another management change. An alternative approach is to build a turnaround team which has the blend of skills required for different stages of the turnaround process.

3 Stakeholder support

Communications.

Start to rebuild confidence through open communications and reliable information.

Those leading a turnaround must *be able to enthuse their people at the same time as achieving organizational stability.*

In a turnaround, the chief executive usually has to have direct communication further down the organization than may be common in a healthy firm.

…it is easy either to think your subordinates know what you want, or to think that because you have told them once, you really communicated with them.

A feature of troubled companies is a stream of bad news. There is a need for good news and this should be communicated in clear, concise terms to enable people to understand their role in the turnaround and facilitate further buying-in to the turnaround process.

4 Strategic focus

Redefine core business, divestment and asset reduction, product market refocusing, downsizing, outsourcing, investment.

Change long-term goals and objectives. Reduce product lines or whole areas of business. Refocus on profitable areas.

Develop a business plan :

a summary of the business's current state ; its strategic, operational and financial plans for the future ; and a road-map for achieving those plans.

5 Organisational change

Structural change, key people change, improved communications, building commitment and capabilities, new terms and conditions of employment.

A revised structure with clarified accountability and responsibility. Introduce an external market-facing perspective. Assess the people ; a skills audit.

6 Critical process improvements

Improved sales and marketing, cost reduction, quality improvements, improved responsiveness, improved information and control systems.

7 Financial restructuring

Refinancing, asset reduction.

College case studies

There is no published list of colleges in recovery, nor one of colleges which have successfully emerged from recovery. Relying on the help and advice of colleagues, 15 possible colleges were contacted. The majority declined to take part in the exercise, the issues being so recent and so sensitive, perhaps, that they could not be exposed even in an anonymised form. However, a range of colleges which were prepared to share their experiences, under conditions of anonymity, was found and six case studies are presented below. The case studies were prepared after discussion with the colleges' principals; the colleges' previous principals and other relevant stakeholders were not contacted. Such a small sample of case studies cannot be taken to be representative of the whole, but it is hoped that their stories can usefully illuminate the process of a turnaround.

In five of the six cases, the college was financially weak and either coasting or in actual decline. In all six cases, more perceptive management (with hindsight) should have seen the problems that were to overwhelm the college, and taken steps to deal with them – but most were in classic 'denial' mode. A poor MIS was responsible in four cases for misleading managers into thinking that the situation was better than in fact was the case. The crisis, when it came, was triggered by a variety of factors – including poor financial results: upon investigation, poor finances were found in all cases. The incumbent principal departed in five of the six cases, and in the sixth he was a recent appointment. Again, in five cases the principal had to deal with crisis stabilisation, seizing the cheque book etc, and was only partly spared in the sixth case by an extremely accommodating funding council. In three of the cases, the sale of spare sites or buildings provided very useful short-term finance, including one case where it was a main plank of their recovery plan.

As far as recovery generally is concerned, the strategies were multiple and fairly diverse, reflecting the individual circumstances and the national policies pertaining at the time. All cut back on staffing, but to varying degrees, and increased efficiency. Four rationalised their provision to some extent. Three placed particular emphasis on improving quality which allowed them to increase enrolments by gaining a better local reputation. Two cases went for substantial growth, which may no longer be such a viable strategy. The use of consultants was patchy, although in two cases at least their input appeared to be crucial. In all cases, recovery has now been achieved, but some still bear the scars of what they have endured.

Case study A

Case study A is a large college on several widespread sites. The result of an ostensible merger, the sites continued to operate autonomously, even to the extent of competing with each other; there was little curriculum rationalisation and each site had its own MIS, finance systems and human resources (HR) procedures. From a budget surplus in 1994/5, the college declined to a breakeven position in 1995/6 and a forecast deficit in 1996/7. The college was insulated to an extent by having large cash reserves, but the governors decided that a change to make a more cohesive college was needed and appointed a new principal.

The new principal introduced several organisational and staffing changes – mainly the appointment of more than 100 new cross-college management posts, but also improvements in the terms and conditions of teaching staff generally. The total annual cost of these changes amounted to about £3.5m, but there was no corresponding growth in activity or income. On the contrary, the funding council was recovering funds for underperformance and repayments of ESF funds ran into millions of pounds. The deficit for 1996/7 grew to almost £7m and a similar figure was forecast for 1997/8. When some of these facts were shared with the governors, some time after the senior college managers became aware of the situation, the new principal departed. An acting principal was assisted by a retired principal 'adviser' who introduced a recovery plan undoing most of the changes made 12 months earlier and included a large number of redundancies which caused discontent among staff. This led to industrial action by teaching staff, further damaging enrolment and results and income.

After six months, a second new principal arrived to be faced by a crisis – insufficient cash to pay the wage bill. He put in place a short-term stabilisation plan:

- he borrowed more than £1m from the funding council (NB strictly speaking, the funding council could not make loans, but it could make financial arrangements which to non-accountants looked like loans)
- he controlled expenditure by signing all orders and cheques
- he formed a small recovery team of mainly new managers
- he communicated the seriousness of the situation to all staff, but in retrospect, fears that not all appreciated how significant the problems were
- he banned the filling of all vacancies except in exceptional circumstances and then only with part-time staff
- he focused on solving the industrial relations dispute.

The stabilisation plan worked and it was followed with a medium-term cost-cutting plan. Some £2m was saved on non-pay items by cutting profligacy and fat: 'If you put in the plug, you find that the bath starts to fill up,' he observes 'but you have to be incredibly tough and unpopular'. No capital expenditure was allowed and all maintenance was suspended except that concerning health and safety. With stabilisation achieved and cost cutting in hand, the principal was able to turn to a corporate recovery plan which included:

- no closure of sites or programme areas, but a significant rationalisation of the curriculum across the sites, based partly on the expectation that some students would have to travel (assisted) to find the appropriate programme
- efficient use of all teaching staff with the monitoring systems in place to keep managers accountable
- a strong framework of policies and procedures that balanced responsibility and accountability for all staff and ensured that decision-making took place within clear corporate guidelines
- new finance and MIS systems; use of key performance indicators
- strict budget control.

The college is now in surplus: enrolments and results have recovered.

In reviewing the recovery period, the principal says that it could not have been achieved without a small team (five) of excellent people acting with openness and total trust in each other; for one person to have borne the pressure alone would have been impossible. Many managers and a number of staff have responded positively and are more committed as a result of this 'crisis experience'. However, there remains a ghost of the crisis as some of the college staff and governors are anxious and averse to taking risks: 'The organisation is wounded and constantly looking over its shoulder,' he says 'and some of the staff remain bitter and hurt'. The major external stakeholders still tend to paranoia in anything concerning the college. It is not a good situation in which to take risks or even to take new initiatives. Changes in governors and further management change over time will bring in people who do not carry the baggage of crisis and recovery – 'another principal will not remember the pain' – and, in time, the balance between the lessons learned (urging caution) and the need to be entrepreneurial (urging innovation) will be achieved.

Case study B

Case study B is a medium-sized general FE college. Under continuous – if not intense – competition from local colleges and school sixth forms, the college did not prosper after incorporation, failing to reach student number and unit targets by margins exceeding 10% for three successive years. Financial losses mounted. In 1995, the college was hit by a double crisis. First, the funding council published a widely circulated report highly critical of the principal and senior governors, which led to their departure. Second, the governors sought a £1m exceptional grant from the funding council as overdraft facilities had been exhausted and were turned down flat.

A new principal started in April 1995 and took central control of resources. The sale of some spare land (for £500,000) brought short-term relief. Redundancies were declared although new financial and HR specialists were appointed. The new appointments plus some incumbent senior managers formed the 'recovery' team which *inter alia* created a business mentality in the college. The funding council helped with some restructuring funds and consultants gave advice on stabilising the college's position. Rather than downsizing to match the low enrolments, the principal decided to expand and generate cash quickly. A new business of national training was launched which produced 100,000 units in two years. This not only energised the whole college; it also produced profits which could be invested in the recovery strategy.

The longer-term recovery strategy was built around growth and re-engineering the college's teaching processes. There was massive (£2m plus) investment in learning resource centres, for mainly adult provision, to the point where they contributed a quarter of the college's total output. Moreover, for reasons outlined below, production costs in the learning resource centres were 40% less than those required with traditional didactic teaching methods. In addition, the college expanded into Level 1 and Level 2 provision for 16–18 year olds, quickly growing to 300 full-time students because other providers were concentrating on Level 3. These expansions allowed the college to withdraw from national training, mindful of the need to serve the local community and also of the funding council's policies on local priorities. It is notable that the college did not close any provision, arguing that it had to serve the whole community and that profits from some areas should properly be applied to the loss-making areas.

At the same time as the first learning resource centres were being developed, the college differentiated its teaching staff:

- traditional lecturing staff continue (800 hours annual class contact) with the best of them progressing to become learning directors, a sort of 'superlecturer' grade with no management responsibilities but excellent lecturing skills
- professional tutors work with tutorial groups and have a mentoring role
- trainers work with students (1100 hours annual class contact), particularly in the learning resource centres
- curriculum support officers are usually promoted technicians who both carry out technician tasks and support learners in resource centres.

Managers have autonomy to use the mix of staffing that best suits their needs. It was noted that the Level 1 and Level 2 provision required far more structured teaching as opposed to training in learning resource centres, and was therefore more expensive – but this was accepted.

The recovery strategy has been underpinned by a zero-based budget approach which keeps a constant pressure on class sizes, class taught hours and staff contact hours. It was estimated that £500,000 had been saved through this approach. Units are re-estimated every month and excellent management accounts ensure there are no end-of-year surprises. The success of the recovery is shown by the fact that £2.8m of debt has been paid off, large investments have been made in buildings and equipment, a £500,000 operating profit is made each year, and the college is about to merge with other colleges in recovery!

In reviewing the stabilisation and recovery phases, the principal noted:

- the need for a small management group which gels
- using the governing body as a focus group and as a source of free consultancy
- the recovery plan required by the funding council was artificial: what was needed was a broad strategy rather than a detailed three-year plan, although discussions with the funding council were useful
- growing your way out of trouble – a doubling in size every three years is not impossible
- the value of introducing new people in management roles
- the tendency in a crisis to say ‘no’ to proposals when sometimes you need to say ‘yes’
- the personal responsibility of the principal for the success of the college.

Case study C

Case study C is a medium-sized tertiary college with sizeable sixth-form provision. Situated on several sites in poor quality accommodation in a rural town, the college could have been summed up as complacent. In 20 years, there had been little organisational change and very limited investment. Staff turnover was very low and most promotions were internal; the governing body had members of 20 years' standing. By 1994 / 5, the college faced repaying a debt of about £1m it owed the LEA from pre-1993. Following a recalculation of the unit position in 1995 / 6, the college's ALF was established at about £20. The college believed that it was working to capacity and had an accommodation strategy based on the need for more space. No room utilisation study had been done to test the under-provision of classrooms. Unfortunately, the MIS was giving an inflated picture of enrolments, and when this became apparent in 1995, the college was seen to be seriously under target and made its first operating loss (before restructuring costs) since incorporation.

In 1995, the funding council 'advised' the newly appointed principal to reduce costs by reducing teaching staff numbers immediately, and a programme of redundancies was agreed. However, because of the existing contractual arrangements, the redundancies added about £400,000 to costs in 1994 / 5 and almost £1m to costs in 1995 / 6 with very little immediate payback. Once the contracts were tackled, there was industrial action. Student numbers fell further, due in part to local demographic factors, but also to bad publicity. Moreover, poor financial management controls (mainly of part-time staff contracts) allowed the payroll bill to exceed the budget. By 1996 / 7, the serious situation had become a crisis and there was a negative general reserve of over £1.5m.

During 1996 / 7 the finance director resigned and the principal, a consultant, and the new finance director introduced emergency measures to control expenditure. Creditors were paid sparingly, repayment of debts such as that still owed to the LEA was further postponed, and funding paid to the college for transfer to third parties was retained as long as possible. Improved financial controls were put in place. In spite of these measures, had the college been in the private sector, it would have been bankrupt as the payback period from the redundancies was protracted. Fortunately the cash position was eased in 1996 by a short-term (secured) bank loan, the bank apparently believing that the funding council would *in extremis* meet the college's debts, although the funding council never guaranteed the debt. This gave the college the breathing space it needed to plan its recovery.

The basis of the recovery plan was threefold.

- An accommodation strategy had, by this time, been developed which showed that the college had excess capacity, mainly in temporary or unsuitable buildings. Sites now seen to be surplus to requirements were sold, raising in excess of £2m, which the funding council agreed could be used to meet the college's short-term debts. A £3m mortgage and funding council grants were arranged to allow the college's main site to be substantially upgraded.
- Systems were put in place to ensure full utilisation of all teaching staff, abatement and remission were curtailed and there was some increase in class sizes. This was achieved in spite of the redundancies which had mainly involved managers.
- The education and training provision made by the college was re-examined with a view to aligning it more closely to demand. Construction studies was dropped and new provision in adult part-time studies was added; a small amount of franchising was started, but this was quickly replaced by an IT centre. HE developments were put in place.

The success of the recovery plan was shown by the fact that the college made a small surplus in 1997/8, and healthy surpluses thereafter. All the college buildings have now been refurbished and student numbers have grown moderately. The full-time: part-time teaching staff ratio of 55:45, to which the college had gone in crisis is now easing to a more sustainable 70:30. The college has finally paid the debt it owed the LEA.

Over the period of crisis and recovery, the entire governing body has been replaced. The new governors are supportive and more competent in business terms than perhaps were their predecessors. They are now focused on the college's academic as well as business improvements.

In retrospect, the principal regrets that independent, professional advice was not available to colleges in 1995/6 in the way that it is today. Now that the FE sector, its principals, and independent consultants have more experience, it is likely that crises of this kind can be avoided or minimised in the future.

Case study D

Case study D is a small general FE college with local competition from schools and a major private training provider. Since incorporation, the college had developed very little, with few curriculum initiatives, a static organisation, little involvement with the local community, no investment in buildings or equipment, and a generally cautious approach to change. The college gave the appearance of treading water, but, nevertheless, it managed to at least break even and build up cash reserves. Student numbers did not grow, but the college seemed fairly sound. This picture of a steady if unexciting college was, however, built on sand – the sand of grossly misleading student figures.

Since 1997, if not earlier, staff had problems with the output of the college's MIS; they could not reconcile the student numbers they saw in front of them with the MIS data on unit activity – the latter was much bigger than staff thought it should be. The funding system was so complex, however, that such reconciliation problems were not unusual and the senior managers continued to put trust in the MIS. They could draw some comfort from the fact that the MIS output was audited each year as part of the final funding claim.

In 1998/9, two factors changed the situation. Firstly, a new MIS was installed and run in parallel with the old system, throwing up some large anomalies between the two. Secondly, the external auditors were changed and they began to ask difficult questions about unit claims. Matters came to a head when governors received planning data which showed the disparity between actual enrolments and what they had believed to be the case. Some senior managers were suspended, and the auditors were asked to investigate fully. Their report showed that the overestimate of units for 1998/9 was about 100,000 (about £1.5m); that there could be similar problems with the 1996/7 and 1997/8 returns; and that there were more general financial management problems. Estimates of total clawback by the funding council ranged between £4m and £10m.

An acting principal was appointed, assisted by an ex-principal as adviser; two new senior managers were also appointed. Because of the cash reserves and the support of the funding council in not moving on clawback immediately, a cash crisis was averted but morale and enrolments suffered. After protracted discussion (more than one year) with the funding council, it was agreed that total clawback should be about £2m and that the college should be re-based on the actual unit and funding allocation figures for 1999/2000, producing an effective ALF of about £22.

As well as negotiating with the funding council, the newly appointed principal tackled morale with some 'small wins' – carpets, decorating, improved staff common room and student cafeteria etc – and developed a recovery plan. A precursor to the plan was an accommodation review by external consultants who reported that the college buildings were in a very poor condition, not fit for purpose, too large, and almost life-expired; £10m needed to be spent. Fortunately, the college owned sites which it could sell and use the proceeds (plus grants) to rebuild itself.

The recovery plan had several components:

- £1m was cut from the staffing budget with 30 redundancies, mainly involving managers so that provision was not affected; every vacancy was reviewed by the principal
- curriculum teams were reorganised and instructor grades etc introduced
- some uneconomic land-based courses were discontinued, qualification overlap (eg BTEC National and Advanced GNVQ) was removed, and tight minimum class-size targets were set
- course costing linked with budgeting was introduced
- non-teaching costs were cut, some on the basis of a benchmarking report
- some training and enterprise council (TEC) work was expanded.

Not perhaps part of the recovery plan, but necessary nevertheless for recovery, is the college's strategy to merge with the local private training provider. This will produce economies of scale and will reduce wasteful competition and duplication.

Reflecting on the recovery, the principal noted a number of important factors:

- the need to have a small team (in this case three) to share the burden
- the need to manage relationships with the local community, particularly the local press, so that the constant drip-feed of bad news is counteracted and turned into good news and support; local editors were taken into the principal's confidence and governors were also useful in creating a better image
- the value of a good working relationship with the chair of governors
- above all, the need to exorcise the culture of blame and of dwelling on past mistakes by insisting: 'We're in the now and we're moving forward'.

Case study E

Case study E is a large general FE college on several sites in a declining industrial town. It entered incorporation with a national reputation for innovation, particularly in IT, and visionary zeal. Experience in budgetary matters, however, was very limited as the LEA had exercised tight control and removed £3m on incorporation. An early foray into ESF-funded provision left the college with a further debt of £5m because sufficient training provision was not made although the funding had been spent. To address the two debts, the college offered voluntary redundancies on attractive terms, but this in turn led to fewer students and declining income. The college, moreover, believed (and acted) as if it were operating at about 900,000 units, whereas in fact it was running at 600,000–700,000, but its MIS continued to provide inaccurate or misleading information.

In spite of these problems, the college maintained its national image and, partly at the request of the local authority, embarked on an ambitious new development in the town centre, funded by the FEFC, the European Regional Development Fund (ERDF), and a bank loan. Control of the project, which had been outsourced, was lost and the development went well over budget. After protracted legal action, some of the money was recovered, but the development had been badly designed and was poorly finished, and turned out to have operating costs double that of the college's other (life-expiring) sites. In 1996, the bank decided that the college was technically insolvent and declined to continue its overdraft facility of £2.5m; the funding council provided some extra finance. Shortly afterwards an inspection of the college resulted in many Grade 5s, including governance and management, and this further affected recruitment.

The principal (in whom the governors had great confidence) produced a recovery plan based on growth of student numbers by 13% – it was in fact driven by the question 'how much do we need to earn to sustain our current levels of spend?' rather than a realistic estimate of likely demand. But instead of expanding, the college continued to decline and the plan failed to live up to forecasts. For two years, the college, the funding council and the bank discussed the situation without resolving it, and it has been suggested that a merger or takeover would have been arranged had there been a likely partner. Debts to the bank stood at £3.5m and the funding council was owed £5m. Staff morale plummeted, no pay rises were paid, and all supplies were severely curtailed, but the college managers blamed the bank and the funding council for the malaise and refused to admit their own responsibility.

The final crisis was precipitated in 1998 by the local TEC, which refused to approve the college's strategic plan on the grounds that they had no confidence that it could be delivered. The funding council moved, the principal resigned, and the board left shortly thereafter. In 1999, a new high-powered board was appointed and a new principal was installed. He concentrated initially on halting the decline in student numbers (now down to between 560,000 and 600,000 units in spite of claims still approaching 800,000) and continuing the financial crisis management where creditor days had risen to 150! With some certainty about student numbers and no inflated expectations of their growth, the principal, in consultation with staff and the board, designed a recovery plan including the following elements:

- income estimates were based on a prudent forecast of student demand, and expenditure plans made accordingly
- £3m was saved from the pay bill by declaring 170 full-time equivalent staff redundancies, equally spread among managers, teachers and support staff (about 40 were compulsory redundancies), thus matching resources with the level of student activity
- £2m was saved from non-pay items
- some managers were redeployed as teachers
- pay structures were redefined and made open to all, ending some curious anomalies
- the curriculum offer was reconsidered and there was rationalisation, with only one (minor) programme area being completely lost
- new contracts of employment, replacing the 'silver book' contracts, were introduced which increased teaching hours to 23 per week and an averaging agreement for up to 25 hours per week
- the college's focus was switched to maximising the value of the students' experience through high-quality teaching and learning supported by expanded staff development; £750,000 from the Standards Fund assisted with this
- the financial case concentrated on repaying debts in a profiled and prudent manner which gave the creditors confidence that the college was under control.

Alongside the recovery plan, the college has sought to reduce its stock of buildings, and to improve them in terms of quality and location. A phased programme of sales and re-investments will better serve the local community and has been designed partly as a result of consultations with the community and staff. Both recovery and the accommodation strategy has been supported by the funding council which, in 1999/2000, agreed to re-base the college with an effective ALF of £26.78 and a four-year convergence period.

In 1999/2000, the college met its (modest) targets and was able to accelerate its debt repayments. The bank returned it to an ordinary banking situation, which meant that interest charges were lower and meetings with the bank and its insolvency specialists at £2000 per meeting were no longer necessary. A re-inspection has placed the college at a satisfactory position. The college has recently taken over the provision previously made by the TEC – work-based learning worth about £3m each year. Local employers are now returning to the college for contract training as the college's reputation improves. Thus recovery is in hand, although the college is still not totally robust.

The principal contrasts his record of delivering his recovery plan with the previous principal's failure to deliver on successive plans. The banks, he says, and to some extent the funding council, invest in management as much as they do in ideas. They will back managers who show that they can perform consistently against their plans, and therefore priority must be given to sustaining the confidence of key stakeholders including local politicians, the local authority, major employers and others. The principal also emphasises the importance of communicating plans to staff – sharing the bad news and celebrating successes – because you must carry the majority of staff with you through significant change and show that they are valued (including rewarding them financially).

Changing the culture of the organisation has been one of the principal's key internal targets. He inherited staff, the majority of whom saw themselves as victims of external forces rather than part of the college's problem and solution. He has worked with them to be:

- focused on students as customers
- positive about the college
- confident about the future of the college
- aware of their own impact on the college
- ready to be internal champions of innovation.

As already mentioned, communication has been important; but equally important has been benchmarking against other colleges, including staff visits so that staff can see alternatives that work. Feedback, which highlights much strength, strong teamwork and appraisal are also playing a part in the overall recovery. Finally, the principal would stress that culture (although slower to change) is as important to turnaround as the recovery plan – they have to work in tandem.

Case study F

Case study F is a large general FE college in a depressed urban area. There is some competition from a medium-sized general FE college and a local sixth-form college; staying-on and achievement rates have traditionally been low. A few years after incorporation, a new principal was appointed 'to shake things up' and he introduced a management style which some saw as aggressive and confrontational. Wholly in line with the funding council policy of the time, the college launched a policy of (non-franchised) growth, apparently growing from 800,000 units to 1.3m units in two years on the basis of massive advertising. A prestigious third campus was planned to accommodate some of the growth and then it became a matter of finding the growth to justify the third campus! Whether such a rate of growth was likely does not seem to have been validated by the funding council or the external auditors who signed off the unit claims. In fact there was very little real growth, but the MIS was misleading and those managers who suspected something was wrong were not inclined to be the bearers of bad tidings.

Matters came to a head not on the growth problem, but on staff complaints to governors concerning bullying and capricious management. At about the same time, an inspection gave a Grade 5 for governance and management and a Grade 4 for quality assurance (QA); curriculum areas did relatively well. The governors took control and launched an auditor's enquiry into HR, finance, and related matters. The college's accounts were re-examined and the auditors found a £6m deficit in 1996/7 and a clawback of £6.5m owing to the funding council. The principal left and, in 1997, a new principal was appointed. On the basis of the audit report and at the instigation of the governors, 200 staff were made redundant, many compulsorily on basic terms and overheads were cut back drastically; the principal has stressed the need to act quickly and decisively in such matters and not to 'prolong the agony'. The costly centralised student support system was replaced by a cheaper and more effective departmental tutor system. It was possible, however, to avoid a cash crisis as the college had a little money and the funding council acquiesced to a clawback profile over five years after the college had had unproductive discussions with its bankers. The college was not re-based.

The college's recovery plan was based on a short-term and a long-term strategy. In the short term, the college grew a franchising operation which reached 200,000 units in two years. The profits from these operations were used to meet the clawback bills and to invest in building up the main work of the college, which was to serve the local community. As local provision grew, the franchises were transferred to appropriate colleges. The local growth strategy was based on:

- an emphasis on quality provision with new quality systems and staff development. Achievement increased from 40% to 75% in a few years. The reputation of the college in the local community grew accordingly
- relationships with local schools, previously neglected, were re-established and the staying-on rate improved from 50% to 65%
- collaboration with the local sixth-form college has led to a joint venture being opened in an under-served area. The lessons learned by college staff working with their sixth-form colleagues have been transferred, with advantage, back into the main college

- a rationalisation arrangement with the other local FE college has led to the exchange of some provision where each can build on strengths
- collaboration with the local university has grown HE provision at the college
- major local firms have come back to the college, not only for vocational skills but also for general management training and work-based training
- TEC contracts, which were about to be removed due to poor performance, have been rebuilt to £1.5m.

The success of the recovery strategy is shown by the fact that the college is now in a healthy financial situation, with a small surplus on a £30m turnover, having almost completed its clawback payments. Recent inspections have been satisfactory to good. The most important indicator, however, may well be the high standing of the college as the key promoter of lifelong learning in the local community. Pressure to maintain improvements is sustained, with benchmarking being used to examine costs, and an appraisal system and extensive staff attitude survey informing managers of areas of potential weakness.

In reviewing the last few years, the principal stressed the value of having a very capable governing body and the understanding and support of the funding council. He also notes that growth has been possible without competition between providers because overall participation has been so low and there was room for all to expand. This situation cannot continue indefinitely as participation reaches national average levels and colleges from outside the area also seek to grow at his expense. The LSC's planning role is seen as key to managing competition in favour of collaboration.

College turnaround – the process

Looking at the experiences of the case studies and drawing from Slatter and Lovett (1999), it is possible to identify a successful college turnaround process which, in brief, consists of:

- recognising the crisis
- stabilising the crisis by taking control of all expenditure
- analysing what has gone wrong
- making management changes
- managing stakeholders
- identifying strategic options
- planning recovery
- delivering recovery.

Nothing can start until the reality of the crisis is admitted. Sometimes this can be triggered by a particular event. At other times, monitoring systems might give warning and it is to be hoped that the LSC provider reviews will prove useful in this although they cannot be fail-safe. Whatever the immediate cause, management and governors have to recognise and own the problem.

Two simultaneous initiatives should then be launched – analysis and crisis stabilisation. The analysis is a 'quick and dirty' diagnosis of the current position and a rough outline of the shape of recovery options if feasible. It is best undertaken by outside consultants, objective about the organisation or its management, reporting to the governing body. Depending on the size of the college, the analysis should take between one and two months. If turnaround is found to be unlikely, merger is advised. Unlike the private sector, however, colleges cannot conduct analyses only on their own terms as the funding councils / LSC will have to take a strategic view on the need for the provision. If recovery options have been identified, they can then be worked up into strategic options as part of the recovery plan.

There is no need to wait for the results of the analysis before starting crisis stabilisation. Someone, usually the principal, needs to take very tight control of expenditure and the maximising of income in the ways outlined by Slatter and Lovett (1999). New, possibly draconian, financial regulations should be quickly implemented. Centralising financial management in one pair of hands will quickly become overwhelming and this is where the value of the small turnaround team, also recommended by consultants, becomes apparent. The pressure on managers is great and speed is essential:

I believe that speed is of the essence once a college has found itself in financial difficulty. Often it is masked over a period of time. If appropriate action is taken at the first hint of financial difficulty then the route to recovery becomes faster. I also believe that most principals (whether very experienced or new to the role) often do not have the expertise to put solutions in place.

There are often a variety of problems and solutions that have to be determined. In (…) college's case, we brought expertise in at an early stage and that one decision has most probably been the most crucial in helping us achieve financial recovery in one year.

(college principal in discussions with author)

If analysis suggests that turnaround is feasible, the question of leadership needs to be quickly resolved. Put simply, the governors must decide whether to replace the principal and / or the senior managers. They have three broad options:

- retain the principal
- retain the principal but augment him or her with external expertise
- seek a new principal, perhaps with an interim appointment.

Should the principal go?

The FEFC was mindful of Michael Shattock's (University of Warwick) dictum that 'the managers that got you into a financial problem are rarely the managers to get you out', and in the most serious situations, the FEFC often identified the replacement of senior managers and / or governors as a key element of an acceptable recovery plan. More generally, it is argued that the incumbent managers have failed and therefore should be dismissed: that, if they remained, they would carry a legacy of failure – weakening them as managers particularly in the eyes of stakeholders; that they are unlikely to be able to make the immense changes needed to recover the organisation; and that they are liable to use some of their energies justifying their previous actions and blaming others. It also seems clear that the skills needed for crisis management and recovery might not be possessed by the incumbents. On the other hand, who knows the college better than its existing managers and will newcomers understand the business? Slatter and Lovett (1999) take an agnostic view:

Hiring a new management team can have symbolic importance as concrete evidence of change to the company's stakeholders, particularly if the existing team are (or are perceived to be) a major cause of the company's problems. Replacing the existing team, however, should not be considered to be automatic for they, with some guidance and external support, may be capable of delivering the turnaround…However if current management is unwilling or unable to embrace and implement change, then it is imperative to bring in new management.

Each case has to be treated on its own merits, but, in any event, the question must be explicitly addressed. In early discussions between stakeholders and colleges about recovery, this can be one of the most difficult areas to resolve and it is important that the funders make their views clear. It is vital that it is resolved quickly. The governors might decide that an interim principal should be appointed to take the college through the initial recovery period.

Should the governors go?

As governors are responsible for determining the strategy and educational character of a college, it might be argued that they share the same responsibility for failure as does management. In many cases, however, they have been kept in the dark until the crisis breaks and, in any event, some continuity is required. Someone needs to appoint and monitor the new managers. On balance, governors should not resign immediately, although a phased replacement over a period of 18 months may be in order. In the rare instances of the chair of governors and the principal both being directly responsible for failure, the chair should go at the same time as the principal. Under the Learning and Skills Act 2000, the LSC is likely to play a more active role in governance matters than could the FEFC. The leader is a key player in managing relationships with external stakeholders, and it is therefore important that questions about leadership are settled quickly. Most colleges will have three sets of external stakeholders – the funders, the banks, and the local community – all of which need to be kept 'on side' if turnaround is to succeed.

- The funders need to be convinced that continued funding is not just necessary but will be value for money. Their objective is the adequacy and sufficiency (now 'proper and reasonable') of provision, not the continued survival of any particular provider, and they will only be moved by arguments bearing on the need for provision. The relationship that can be established with the funder will, to a large extent, determine the deal that may be struck over additional support as noted in 'Recovery under the FEFC' (page 3). Colleges should keep in mind also that the funders are subject to public scrutiny and can only take decisions which are, and appear to be, a reasonable use of public monies. The judgement of what is reasonable will, of course, change over time and some commentators have noted a distinct change in the attitude of the FEFC towards a more formal and cautious approach after the Bilston and Halton affairs. The LSC has more powers as a stakeholder than did the FEFC, principally the power to appoint governors, and this must be kept in mind.
- Bankers with outstanding loans to turnaround colleges are concerned for the security of their loans. Many of them do not understand the sector and, in particular, they do not understand how funding works. In spite of protestations to the contrary from the funding councils, banks take comfort from the fact that colleges are in the public sector and therefore have the government behind them as the ultimate guarantor of their debts. In a way the banks are right because no college has defaulted on a major secured loan, yet.
- The local community is important because it provides next year's students and a college with a poor reputation will find it much more difficult to turn around. The key community stakeholders – the press, local community leaders, local schools – need to be kept informed of developments and fed positive pictures of the college to counteract the negativity associated with redundancies and downsizing.

With stabilisation in hand, although not necessarily assured, the leadership issues resolved, and the stakeholders happy or mollified, it is time to start recovery planning.

Recovery plan – model contents

A recovery plan is more properly called 'a revised strategic plan and financial forecast leading to recovery', which is a reasonable description of the contents. The precise contents will depend on the nature of the problems, but the model set out here covers most situations.

1 **Executive summary** important because it is probably the only part that most governors and bankers will read.

2 **Background** a brief introduction to the recent history of the college plus a longer analysis of current problems: many colleges omit the analysis either because it is too painful, or because they (wrongly) believe that it is more important to move on to the future than it is to dwell in the past. Without a full and frank recognition of past errors and problems, however, we cannot be sure that they have all been properly addressed and will not recur. The background should also contain an acknowledgement of continuing areas of weakness that must be corrected as part of the recovery plan.

3 **Strategic objectives** the college will already have strategic objectives including a mission, corporate aims etc, but it is important that these be critically reviewed in terms of future relevance and achievability. Recovery options may already have been identified in the initial analysis and these need to be refined as strategic options which then guide the new strategic objectives. It is recommended therefore that the college starts with its strategic options and a clean sheet of paper, possibly facilitated by an outsider, and develops new strategic objectives *ab initio*. This is not an easy task: there have been instances where a college has been so wedded to A-level provision (in addition to general FE) that even though the market has declined and substantial financial losses are being made, they find it very difficult to bring themselves to reconsider the provision.
The possibility of merger or other strategic collaboration should be considered. Given the current national policy climate, the possibility of partnerships or similar collaborative arrangements with other colleges, schools etc, should definitely be considered.

4 **Market needs analysis** closely related to the (revised) strategic objectives, there should be an analysis of local market needs, demographics, labour market needs, competitors etc. This should give confidence that the future of the college is based more on what the outside world requires than what the college would like to do. The possibility of downsizing should be specifically addressed – the size of the college depends on the size of the market, rather than the size of the college postulating a market of a particular size.

5 **Curriculum plan** lies at the heart of the recovery plan. It consists of student numbers (and other aspects of provision), by course, by level, and perhaps by location, forecast for the next three years (exceptionally five). It is consistent with the strategic objectives and the market needs analysis. Full regard needs to be given to new teaching and learning approaches, including resource-based learning, open learning workshops and distance learning. Of particular note are the quality standards that will be achieved, and the processes that will be put in place to underpin them.

6 **Staffing plan** out of the curriculum plan will come a need for a level of staffing (teaching and support) taking into account variables such as class sizes, guided learning hours, the need for different specialists, staff development, business support etc. There will probably be a gap in terms of scale and staff types between the staffing plan and the current staffing position. This gap should be enumerated and details given of the strategies needed to deal with the gap; for example, redundancies (costed), retraining, timescales etc.

7 **Accommodation plan** the accommodation with which a college finds itself at recovery may not be appropriate in terms of size, location, quality, or specialist facilities, for the curriculum which is being proposed. Very often colleges have too much, often low-quality, accommodation and need to dispose of sites, re-investing the receipts in downsized but better accommodation and perhaps in revenue needs. As an absolute minimum, a recovery plan should show how the curriculum plan will be accommodated and contain space utilisation and space efficiency measures before and after recovery.

8 **Financial forecasts** the three-year financial forecasts should be a natural corollary to the recovery plan, emerging out of it and being consistent with it, rather than a separate exercise. It should be transparent how the student numbers in the curriculum plan produce the main income lines of the forecast, and how the same student numbers projected through the staffing plan produce the staff expenditure lines. All other areas of income and expenditure should be explained and any material differences with current levels should be explained in detail. All financial assumptions should be reasonable; for example:

- the level of funding that the college forecasts it will receive should follow the published guidance
- commercial income streams should be realistic
- pay rates will rise in line with the general rise in earnings and not be financed by unspecified efficiency savings.

One-off costs of restructuring etc (income and expenditure account) and buildings disposals (balance sheet) should be shown specifically. The cash flow forecast should be monthly for three years. One of the aims of a recovery plan is to demonstrate that through revised strategies, curriculum plans etc, the college will move into financial viability within three years. This means that there should be an operating surplus and a current ratio in excess of 1. In exceptional cases, the viability aim may be relaxed to five years; but, in that case, all the plans and forecasts will have to cover five years.

9 **Risk and sensitivity** in view of the college's vulnerable situation, particular care needs to be taken of risk and sensitivity. In addition, it is useful to refer back to the original problems set out in the background to test their impact were they again to arise. An FEFC colleague has added:

The implementation of strategic recovery plans is subject to higher than normal levels of risk. The changes which the college is implementing frequently depress student recruitment in the first year of recovery. Staff restructuring can lead to the wrong people going. It may be difficult to sell surplus property. Refurbishment projects frequently uncover unforeseen problems and cost more than originally anticipated. Building work can depress student numbers further.

10 **Implementation and monitoring** movement towards recovery needs to be planned like a project with timelines, Gantt charts, key dates and the rest. Named staff should be held accountable for achieving specific, measurable objectives by defined dates. It is likely that the governors will take responsibility for overall monitoring.

The actual implementation of recovery needs to be carefully managed. Several colleges have failed at this point with an unsuccessful implementation and found themselves back in crisis six months later. Some of the case studies stress the need for a management-team approach; others emphasise the place of the 'big bang' – of making sweeping rather than gradual changes, of aiming for 20% cost reductions in order to achieve 10% cuts. The value of maintaining crisis-style expenditure controls, even after stabilisation, has also been noted.

During the early stages of recovery, which is normally the time of greatest risk, the governors or a committee of the governors may meet more frequently than usual, but not so frequently as to distract management's attention from implementing recovery to reporting on it. In the case, however, of a departed principal or an interim principal, the governors would need to have a more 'hands on' approach.

Having put the recovery plan in place, several colleges have found that it is the springboard for further development and growth – that having re-invented themselves, they can go much further and faster than others. The majority, however, are just pleased to be back on an even keel, with a steady, if not spectacular, rate of growth. The long-term damage which having to go through turnaround inflicts on an organisation should not be underestimated.

The use of external consultants, for their disinterestedness, in the analysis phase has already been mentioned. Whether they can be useful for other functions is more problematic. It would seem evident that management's capacity both to handle the crisis and run the college could be increased by the use of consultants; that extra and competent pairs of hands could run the college while the principal deals with stakeholders and has time to think. If a college is suddenly without a finance director, it is appropriate to appoint an interim director, perhaps from a consultancy organisation, until a permanent appointment can be made. The case studies, however, suggest that consultants *per se* have been used sparingly, and then only for specific tasks such as preparing an accommodation strategy or dealing with redundancy processes. Senior managers have to balance the advantages of gaining increased capacity against the short-term loss of capacity involved in inducting consultants at a time when there is little to spare. Colleges may also resist the wholesale use of consultants when their own staff are being dismissed.

References and suggested further reading

Further Education Funding Council. *Bilston Community College – report on an enquiry into its future.* FEFC, 1999a.

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Appendix

Points to consider in drawing up an action plan for the recovery of a college

Example of FEFC 'unofficial' guidance

In developing an action plan for the recovery of the college's financial and strategic position, the following points should be considered.

a The action plan for recovery should demonstrate in practical terms, on the basis of prudent and realistic assumptions, how the college will recover over an agreed period of time, usually the planning period of the financial forecast. The financial forecast and commentary included in the action plan will indicate when the college will recover its position.

b The basis of the plan and the associated assumptions made should be clearly set out, including a full risk assessment which reflects the sensitivity analysis from the financial forecast and a revised accommodation strategy. The action plan will also include a costed contingency plan which addresses all identified risks.

c The plan should include specific, measurable and timed targets for each of the elements with appropriate management arrangements to monitor regularly progress against targets.

d The college will need to review and revise as necessary projected student numbers over the period of the action plan, taking account of changes to the external environment.

e A critical part of the plan will be a review of the impact on the curriculum provision currently offered and any proposed changes to the curriculum over the period of the action plan. This might include changes in class sizes and methods of delivery, retention targets, rationalisation of provision.

f The recovery plan should demonstrate how the college intends to ensure the quality of the curriculum delivery during the period of the action plan and how the action arising from the college inspection report (date of most recent inspection) will continue to be addressed.

g A revised, fully costed accommodation plan, which includes disposal of any college estate; an indication of the timescales for disposal and associated receipts; fully costed options for any refurbishment; and an outline of how the curriculum will continue to be delivered in these circumstances should all be elements of the recovery action plan.

h The college will need to demonstrate that its proposed action plan can be achieved.

i Monthly financial reports should be prepared to support the action plan and should include:

- cash flow projections compared to budget
- income and expenditure to date and to year end, both in comparison with forecast and on a three month basis, [and] a draft balance sheet. Copies of these reports should be sent to the regional finance director.

j Other headings which you may wish to consider in the plan could include:

- any restructuring options
- any revisions to staff contracts.

k A project management schedule or timetable to show how the various elements of the recovery action plan come together.

This list of points is not intended to be exhaustive but serves as an indication of key elements to be considered.

This publication provides guidance to senior managers and governors on how to turnaround a college faced with serious difficulties.

The descent from weak health to a crisis appears to require a trigger – an event or series of events that trips the weak college over the catastrophe threshold.

Drawing on the experience of how recovery has been handled over the last few years, a set of case studies of colleges that have successfully managed recovery, and practice in the private sector, an eight-point blueprint for a successful turnaround process is proposed.

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